LOUISIANA
Directive No. 181
March 10, 2004

LSA-R.S. 22:2
LSA-R.S. 22:652
LSA-R.S. 22:652.4
LSA-R.S.22:1490

NOTICE TO ALL PROPERTY & CASUALTY INSURERS
LICENSED AND/OR DOING BUSINESS IN LOUISIANA

RE: Acts 2003, No. 1256 of the Louisiana Legislature
Credit Information Reporting Requirement – Personal Lines Only
Withdrawal of LIRC Directive 2003-02

Please take notice that *LIRC Directive 2003-02* is hereby withdrawn.[1]

The purpose of this Directive is to inform all property and casualty insurers writing personal lines coverage that the Louisiana Legislature, at the 2003 Regular Session, enacted Part XXXI-A, of Chapter 1 of Title 22 of the Louisiana Revised Statutes ("the Insurance Code"), which regulates the use of credit scoring in Louisiana. The Act took effect on August 15, 2003, and applies to all policies written or renewed on or after May 15, 2004. This Directive addresses important issues that have been raised by various parties affected by the Act. More specifically, this Directive advises and directs all such insurers that pursuant to LSA-R.S. 22:1490, as quoted below, insurance scoring models or other scoring processes must be filed with the Louisiana Department of Insurance on or before May 15, 2004.

> *§1490.   Filing*
> *A. Insurers that use insurance-related scoring systems to underwrite and rate risks shall file their scoring models or other scoring processes with the Department of Insurance. A third party may file scoring models on behalf of insurers. A filing that includes insurance scoring may include loss experience justifying the use of credit information.*
> *B. Any filing relating to credit information is considered a trade secret under R.S. 51:1431.[2]*
> *Acts 2003, No. 1256, §1.*

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[1] Enforcement of the statute at issue does not fall within the purview of the LIRC. Further, even if the Act was enforceable by the LIRC, there was no motion and order adopting the Directive. The withdrawn directive is of no effect.

[2] Hereinafter, the phrase "scoring models or other scoring processes" will be referenced by its acronym "SMOSP" and/or the shorthand term "model".

This Directive does not discuss the entire import of Act 1256. Insurers are expected to review the Act in its entirety and comply accordingly. The full text of Act 1256 can be found at http://www.legis.state.la.us/leg_docs/03RS/CVT6/OUT/0000KTTV.PDF, the Louisiana legislative website.

Each insurer, or a duly authorized third party acting on behalf of the insurer, must make its own SMOSP filing as required by LRS 22:1490. (Please note, the Act defines the term "insurance score" in Section 1483(8).)

In order to assure that insurers that use credit scoring are conducting themselves in accordance with Act 1256 and other applicable provisions of the Insurance Code (e.g., LSA-R.S. 22:652 prohibits unfair discrimination in rates and LSA-R.S. 22:652.4 prohibits insurers from discriminating on the basis of race or economic conditions), the Commissioner of Insurance, pursuant to the authority granted by LSA-R.S. 22:1211 *et.seq.*, hereby directs and orders such insurers to provide the following information in the "§1490 filing".

The LDOI will review each SMOSP filing for the following components:

- Model identification.
- An overview of the model and its development.
- An overview of how an insurer applied model output in rating or underwriting.
- Actuarial relevance model output has to insurance risk.

To this end, the filing should include the following information (NOTE: THIS INFORMATION WILL BE CONSIDERED TRADE SECRET UNDER LSA-R.S. 22:1490.B AND LSA-R.S. 51:1431):

1. Model Identification:

    a. Identify the name of the model.
    b. State the model version.
    c. State whether the model identified above is a sub-component of a broader rating/underwriting model that uses non-credit related risk information. Name the broader rating/underwriting model.
    d. Name of the company that created the model.

2. Overview of Model:

    a. Describe how the model was developed.
    b. State whether, or not, the model complies with all standards set forth in LSA-R.S. 22:1481 – 1494.
    c. List all inputs to the model:
        (i)   provide a plain language description of each input, including definitions of technical terminology and abbreviations.
        (ii)   identify the source of each model input, e.g., credit report, application, etc.

       (iii)   state the weight assigned each input value as used toward the calculation of the model output.

   d. List all model outputs:

       (i)   provide a plain language description of each model output.

       (ii)   if model output includes an alpha or numeric score, state the maximum and minimum range for the score.

       (iii)   if model output includes an alpha or numeric score, state whether the high or low output value corresponds to a "good" insurance risk.

   e. Describe how the model is validated.

   f. Describe how the model treats an individual where there is an absence of credit information (known as a "no hit file").

   g. Describe how the model treats an individual where there is insufficient information for the model to evaluate the individual (known as a "thin file").

   h. Describe how medical-related transactions are handled in the model.

   i. If known, provide references to research showing that the credit model's output is neither unfairly targeting nor being used as a surrogate for income, geography, gender, ethnic group, religion, marital status, or nationality. If references are not known, state such.

   j. Provide any other information the modeler believes will assist the LDOI in understanding how the model output is calculated.

   k. Provide contact information for a person familiar with model development and validation.

3. Overview of Model Output in Rating or Underwriting:

   a. List each insurer using the version of the model identified in item 1 above.

   b. For each insurer, provide the following information:

       (i)   identify the personal lines (see E below) for which the model is used to either rate or underwrite insurance policies.

       (ii)   for each identified line, describe how the insurer uses model output to rate a policy. If not used for rating, state such.

       (iii)   for each identified line, describe how the insurer uses model output to underwrite a policy. If not used for underwriting, state such.

       (iv)   for each identified line, describe how the insurer treats an applicant for insurance where there is an absence of credit information (known as a "no hit file").

       (v)   for each identified line, describe how the insurer treats an applicant for insurance where there is insufficient information for the model to evaluate the individual (known as a "thin file").

   c. If the insurer uses credit information to place business into a rating or an underwriting tier[3] then, for each identified line, provide a table displaying:

       (i)   the name of each rating/underwriting tier.

       (ii)   a brief description of the criteria used to place a policy in the tier.

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[3] For these tables a "tier" may be either: (1) the differentiation of rate within a single company that is, in whole or in part, dependent on credit information, and/or (2) the underwriting placement/rate differentiation of risk across companies in a company group that is, in whole or in part, dependent on credit information.

        (iii)   the average Louisiana rate relativity between each tier.
- d. State the date this model version was first used to write new business and/or renewal business in Louisiana.
- e. Provide any other information the insurer believes will assist the LDOI in understanding how model output is used to rate or underwrite an insurance risk.
- f. Provide contact information for a person familiar with model usage within the insurer.

4. Actuarial Relevance Model Output Has to Insurance Risk:

- a. If model output is used in rating of a policy, provide actuarial justification for rate differentials dependent on model output. For example, the insurer should provide justification for insurance scores (or score groupings) that result in rate differentials by tier within a single insurer, differentials between insurers in a group of companies, or differences in other model dependent rating factors.
- b. If model output is used to underwrite a policy (e.g., reject an applicant, non-renew an existing policyholder, or cancel an existing policyholder), provide actuarial justification for such usage.
- c. For either rating or underwriting usage, the filed support should demonstrate that model output is predictive of insurance loss. Actuarial justification should establish that credit scores are used in accordance with actuarial principles and standards of practice. To the extent available, justification should include Louisiana premium and loss experience. If Louisiana experience is not available, supporting experience can be from other relevant states and be clearly documented.

The following information will assist in determining an insurer's compliance with filing requirements under Act 1256, compliance with other applicable provisions of the Insurance Code, and will help expedite the filing process:

A. If a model applies to more than one insurer in a company group, one filing can be made on behalf of all or a subset of companies in the group. Each insurer should be individually named in the response to item 3 above and it should be stated that filing responses apply to all companies so named.

B. If an insurer uses more than one model, a separate filing must be made for each model. How each model is used should be clearly identified in the response to item 3 above. For example, it should be stated that an insurer used one model for new business and another model with its renewal business.

C. A third party vendor (e.g., Fair Isaac or ChoicePoint, etc.) may file model information on behalf of an insurer. In this case, the third party vendor should provide responses to items 1, 2, and 4.c above.

D. If an insurer utilizes the model of a third party vendor **without modification**, the insurer must still file with the LDOI. However, the insurer need only provide responses to items 1, 3, and 4 above.

If an insurer utilizes the <u>model of a third party vendor</u> **with modification**, the insurer must file items 1, 3, and 4 above, and provide an explanation of the model modifications. This latter explanation should comply with the filing requirements outlined in item 2 above.

E. Act 1256 only applies to policies individually underwritten for the following types of personal insurance (LSA-R.S. 22:1482):

- Private Passenger Automobile
- Motorcycle
- Homeowners
- Mobile Home Owners
- Non-Commercial Dwelling Fire
- Boat
- Personal Watercraft
- Snowmobile
- Recreational Vehicle

F. Act 1256 does not apply to any commercial lines or personal lines other than those specified in item E above.

G. Insurers currently using an SMOSP for rating or underwriting Louisiana policies are hereby directed to file the SMOSP on or before May 15, 2004.

H. To assure continued compliance with the requirements of the Act, any revisions and/or modifications to a previously filed SMOSP, or any revisions and/or modifications by an insurer as to its use of model output to determine a policyholder's rate or to underwrite a policyholder must be filed with the Department. In other words, revisions and/or modifications render the previous filing obsolete. To remain in compliance with §1490, the SMOSP in current use should be filed in a prompt and timely fashion with the LDOI.

I. If a model's usage spans geographic areas beyond Louisiana and revisions to the model will not affect Louisiana policyholders, only item 1 above need be filed along with a statement that the revised model did not change model output or model usage for Louisiana applicants or policyholders.

J. Act 1256 requires insurers that use an SMOSP to file the model with the LDOI. Therefore, if an insurer introduces an SMOSP to its Louisiana rating or underwriting plans, the model must be filed in accordance with the law. Failure to file the model within thirty (30) days of its introduction may result in the imposition of the sanctions authorized under LSA-R.S. 22:1457.

K. The LDOI will "acknowledge" receipt of a model filing submission. If additional information is required, the LDOI will contact the individual designated in the filing.

L. The LDOI does not "approve" an SMOP filed as required by Act 1256. Filing with the LDOI does not relieve the insurer of its responsibilities under Act 1256 or any other provisions of law.

M. Be advised that, if a rate filing is made and the underlying rate plan uses credit information, the information sought by this Directive will assist the actuary in review of the rate filing to determine if it is or is not actuarially justified and may prevent delay in the rate filing process.

N. The model filing should be submitted in a sealed envelope marked **CONFIDENTIAL** to:

Credit Model Filing Coordinator
Louisiana Department of Insurance
Office of Property and Casualty
P.O. Box 94157
Baton Rouge, LA 70804

The LDOI reserves its right to request more specific information on the model or an insurer's use of a model at any time. At the request of the Commissioner or his designee, the modeler or insurer may be requested to provide information in addition to and in more detail than that requested in this Directive.

Please take note that failure to comply with this Directive may result in the imposition of disciplinary action as authorized by law.

If there are questions regarding this directive, contact Rich Piazza at 225-342-4689 or rpiazza@ldi.state.la.us.

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J.ROBERT WOOLEY
COMMISSIONER OF INSURANCE
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BY:_____

Paula P. Davis
Deputy Commissioner
Office of Property and Casualty
Louisiana Department of Insurance